

# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

### MINUTES OF MEETING OPEN SESSION

**February 19, 2008** 

The Investment Committee met on Tuesday, February 19, 2008 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 9:15 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Marjorie Berte
John Chiang, represented by Terry McGuire
Rob Feckner
David Gilb, represented by Greg Beatty
Henry Jones
Bill Lockyer
Priya Mathur
Tony Oliveira
Anne Sheehan
Kurato Shimada

Investment Committee members excused: Mike Quevedo, Jr.

Chair Valdes welcomed and recognized approximately 30 business school students and Toigo Foundation Fellows in the audience. CalPERS has been a long-time supporter of the Toigo Foundation which was founded to help minority and women students obtain their professional degrees.

#### AGENDA ITEM 2 – APPROVAL OF DECEMBER 2007 MEETING MINUTES

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** that the December 17, 2007 Open Session minutes be approved as presented.

### **AGENDA ITEM 3 – POLICY SUBCOMMITTEE REPORT**

Ms. Mathur, Policy Subcommittee Chair, presented the December 14, 2007 Subcommittee Meeting Summary.

Russell Read, Chief Investment Officer, and Farouki Majeed, Senior Investment Officer, presented the proposed policies, along with revisions that had been requested by the Subcommittee.

Louis Blumberg, Director, California Forest and Climate Policy, The Nature Conservancy, spoke in support of the new Inflation-Linked policy and commented on the benefits of well-managed forestlands.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to adopt the Inflation-Linked Asset Class policy and approve the revisions to the Dollar-Denominated Fixed Income Program policy.

In the past, the Policy Subcommittee met bi-monthly on the Fridays preceding the Investment Committee meetings. The Policy Subcommittee will now meet on the same day as the Investment Committee upon adjournment of the Committee.

The Policy Subcommittee scheduled for February 19, 2008 was postponed to March.

### AGENDA ITEM 4a – TOTAL FUND – Approval of General Pension Consultant Pool and the Creation of CalPERS Asset Allocation Funds

Geraldine Jimenez, Division Chief-Supplemental Income Plans (SIP), and Matt Flynn, Division Chief-Administration and Operations, presented the item.

On December 20, 2007, a Request for Proposal was issued to add consultants to refresh the General Pension Consultant Services Spring-Fed Pool. Staff described the proposal review and scoring process and recommended two finalists for inclusion in the Spring-Fed Pool.

SIP will use the services of a firm in the Spring-Fed Pool to work with the Asset Allocation and Risk Management team to develop the asset allocation of target date funds and risk based funds. It is currently anticipated that the funds' asset allocation policies will be brought to the Policy Subcommittee in June 2008, and to offer these funds to participants in the Fall of 2008 in connection with other enhancements to the SIP line-up.

On **MOTION** by Mr. Shimada, **SECONDED** and **CARRIED** to approve the addition of Callan Associates, Inc. and Mercer Investment Consulting, Inc. to the General Pension Consultant Services Spring-Fed Pool, and the creation of CalPERS Asset Allocation Funds for the Supplemental Income Plans.

### AGENDA ITEM 4b – TOTAL FUND – Adoption of Delegation Resolution for SIO-Asset Allocation

Russell Read, Chief Investment Officer, and Farouki Majeed, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

The proposed delegation reflects the responsibilities assigned to the Senior Investment Officer-Asset Allocation/Risk Management. Staff described the aspects of the delegation relevant to asset allocation and Inflation-Linked Asset Class components, including the Commodities Program, and the Inflation-Linked Bonds Program. Once the contingencies are in place for the Forestland and Infrastructure Programs, a revised delegation will be presented to the Committee for approval.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the Delegation Resolution for the Senior Investment Officer-Asset Allocation/Risk Management.

#### AGENDA ITEM 5 – REAL ESTATE

There were no items to report.

# AGENDA ITEM 6a – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, California Initiative Update

Leon Shahinian, Senior Investment Officer, Joncarlo Mark, Senior Portfolio Manager, and Jesus Arguelles, Investment Officer, presented the item. Beth Sirull and Pete November, Pacific Community Ventures (PCV), the third-party consultant, assisted with the presentation. Paul Yett, Daniel Vasquez, and Keith Spears, Hamilton Lane, were available to respond to questions from the Committee.

The primary objective of this program is to earn attractive risk-adjusted rates of return by investing in underserved markets primarily located in California. As an ancillary benefit, the Program's investments are expected to have a positive impact on economic infrastructure of underserved markets in California. Staff and PCV provided a presentation highlighting (1) annual financial results as of September 30, 2007, (2) annual ancillary benefits of the Program as of June 30, 2007, and (3) key features of the Program's next phase.

There was discussion regarding representation of women in minority owned companies (on boards and in leadership roles), equitable equity distribution on boards, and percentage of California investments.

The Committee accepted the annual information report.

## AGENDA ITEM 7a – INFLATION-LINKED ASSET CLASS (ILAC), Update on Implementation

Farouki Majeed, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Previously, the Committee approved an Inflation-Linked Asset Class (ILAC) comprising Commodities, Inflation-Linked Bonds, Infrastructure and Forestland. In December 2007, the Committee approved the ILAC asset allocation. Approval of new investments within the ILAC components is contingent upon Committee approval of a governing policy and development of organizational structure and alignments of compensation incentives. Staff provided an implementation update regarding the status of these activities.

There was discussion regarding the need to engage city, county, and special district organizations in the process. The Committee expressed interest in receiving a presentation about the Canadian pension fund (OMERS) infrastructure program.

Staff will continue to provide ILAC implementation updates as needed.

The meeting recessed from 10:30 to 10:45 p.m.

### AGENDA ITEM 8a – GLOBAL FIXED INCOME, Credit Enhancement Program Annual Review

Curtis Ishii, Senior Investment Officer, and Dan Kiefer, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Over the past two years, staff has strategically conserved capacity due to the low pricing environment for both liquidity and credit resulting from an overabundance of supply. Staff will now prepare to commit funds in order to take advantage of the recent price dislocations stemming from the sub-prime crises. In addition, staff is planning to recommend streamlining policy to capitalize on recent market opportunities.

The Chair directed staff to return to the Investment Committee with a presentation on strategic opportunities for this program.

The Committee accepted the annual information report.

## AGENDA ITEM 8b – GLOBAL FIXED INCOME, Consultant Review of Internal Currency Program

Michael Schlachter, Wilshire Associates, presented the item. As part of Wilshire's contractual requirement to periodically review all of the internal asset management functions, Wilshire conducted an on-site review of the Global Fixed Income internal currency team's personnel, investment process, and resources. The report findings were presented.

The Committee accepted the annual information report.

## AGENDA ITEM 8c – GLOBAL FIXED INCOME, Selection of Member Home Loan Program Manager/Master Servicer

Curtis Ishii, Senior Investment Officer, and Mark Yelavick, Investment Officer, presented the item.

In July 2007, a Request for Proposal was issued for the Member Home Loan Program (MHLP) Manager/ Master Servicer. One proposal was received from the incumbent manager CitiMortgage. Staff reviewed the proposal and concluded that they possess the desired experience and qualifications for continued program responsibilities and are currently negotiating terms and fees with CitiMortgage. An annual review provision will be included in the contract.

Dave Elder, interested party, provided suggestions relevant to potential new mortgage products and mortgage instruments that encourage thrift.

The Chair directed staff to report back to the Investment Committee with additional information on how defaults are handled, as well as options for program enhancements.

#### RECOGNITION RESOLUTION

At this point Christy Wood was acknowledged for her many accomplishments over the past five years as the Senior Investment Officer of Global Equity. President Feckner presented Ms. Wood with a resolution recognizing her dedication and distinctive service to CalPERS.

At this point, the following recusal statement was made:

Eric Baggesen, Interim Senior Investment Officer, stated "pursuant to California Government Code Section 87100, I will not be participating in nor present during two closed session agenda items, 7a [Restructuring Implementation] and 7b [External Manager Update], due to a potential confliction of interest."

### AGENDA ITEM 9a - GLOBAL EQUITY, Global Equity Restructuring

Eric Baggesen, Interim Senior Investment Officer, presented the item. Andrew Junkin and Michael Schlachter, Wilshire Associates, were available to respond to questions from the Committee.

Since August 2007, staff presented a series of agenda items that outlined potential enhancements to improve and update the structure of Global Equity. The objective is to increase the above benchmark or "active" return of the asset class.

Staff provided an update regarding the status of the following changes:

- Increase the capital allocated to the Corporate Governance and Risk Managed Absolute Return (RMARS) programs
- Extend the RMARS decision making process to other portions of Global Equity where appropriate
- Adopt a market capitalization weighted global benchmark

The Chair directed staff to return to the Investment Committee with an action item expanding the Global Equity internally managed portfolios to include international small/micro cap and emerging markets index portfolios.

#### **NEW BOARD MEMBER ANNOUNCEMENT**

Chair Valdes announced that Louis Moret has been appointed by the California State Legislature to serve on the CalPERS Board.

## AGENDA ITEM 9b – GLOBAL EQUITY, Legislative Reports: Holocaust Era and Northern Ireland Annual Reports

Eric Baggesen, Interim Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manger, presented the item.

Staff reviewed executive summaries of the Holocaust Era and Northern Ireland Annual Reports, which are required by statute. Upon Committee approval, staff will send the reports to the Legislature and send letters to:

- Eight companies included in the Holocaust Era Report that are currently facing lawsuits in Japan over their use of Chinese or Korean civilians as forced laborers
- Nine companies identified in the Northern Ireland Report that have repeatedly received formal discrimination grievances

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve the Holocaust Era and Northern Ireland Reports for transmittal to the Legislature.

### AGENDA ITEM 9c - GLOBAL EQUITY, Corporate Governance Update

Dennis Johnson, Senior Portfolio Manager, reported regarding:

- Upcoming Council of Institutional Investors' Spring Meeting agenda items relevant to initiatives, proposed bylaw and policy changes, and strategic planning.
- A recent meeting of Los Angeles County pension funds regarding corporate governance initiatives that would benefit small pension funds.

Dennak Murphy, representing Services Employees International Union (SEIU) Stewardship Program and Change to Win Investment Group, provided an overview of the Change to Win organization and its initiative to hold corporate boards accountable to shareholders, with current focus on the sub-prime crisis.

# AGENDA ITEM 10a – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Consolidated Investment Activity Report

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of December 31, 2007, was approximately \$253.0 billion and the total book value was approximately \$203.8 billion.

# AGENDA ITEM 10b – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report.

#### AGENDA ITEM 11 - DRAFT MARCH 2008 AGENDA

The Committee accepted the proposed March 17, 2008 agenda.

#### **AGENDA ITEM 12 – PUBLIC COMMENT**

There were no additional comments from the public.

At this point, the following recusal statement was made:

The State Controller's representative, Terry McGuire, stated "out of an abundance of caution and consistent with the state law conflict rules, I will recuse myself from Investment Committee Closed Session Agenda Item 3a, Real Estate Portfolio Sector Update, because of a potential conflict under Government Code Section 87100."

The next Investment Committee meeting is scheduled	l for March 17, 2008 in
Sacramento, California.	

The meeting was adjourned at 12:15 p.m.

FRED BUENROSTRO
Chief Executive Officer